

**OLIVET COMMUNITY SCHOOLS**  
**REPORT ON FINANCIAL STATEMENTS**  
**(with required supplementary and additional information)**  
**YEAR ENDED JUNE 30, 2005**

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Lamonte T. Lator  
Bruce J. Dunn  
Jeffrey C. Stevens  
Linda I. Schirmer  
Steven W. Scott  
David M. Raack  
Robert E. Miller, Jr.  
Steven B. Robbins  
James E. Nyquist  
James R. Dedyne

Timothy H. Adams  
David B. Caldwell  
Edward L. Williams, III  
Timothy J. Orians  
Dennis D. Theis

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Walter P. Maner, Jr. (1921-2004)  
Floyd L. Costerisan  
Leon A. Ellis (1933-1988)

## INDEPENDENT AUDITORS' REPORT

Board of Education  
Olivet Community Schools  
Olivet, Michigan

September 2, 2005

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Olivet Community Schools, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Olivet Community Schools' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Management recorded a current year's capital expenditure transaction in the general fund for the year ended June 30, 2004. Accounting principles generally accepted in the United States of America require that a transaction be completed in the period in which it is recorded. The effects of recording this transaction in the previous year, is an understatement of capital expenditures for the year ended June 30, 2005 of \$93,000 in the general fund. Fund balance at June 30, 2005 is now properly recorded.

In our opinion, except for the effect of recording a current year's capital expenditure transaction in the previous fiscal year, in the general fund of the prior period, as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the general fund of Olivet Community Schools as of June 30, 2005 and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the government activities, capital projects fund, and the aggregate remaining fund information for the primary government of Olivet Community Schools as of June 30, 2005 and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 2005, on our consideration of Olivet Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages vi through xii and 25, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Olivet Community Schools' basic financial statements. The additional information on pages 27 to 40 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Mamer, Costeniser & Ellis, P.C." The signature is written in a cursive, flowing style.

Certified Public Accountants

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of Olivet Community School's (OCS) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2005. The District implemented GASB #34 the previous year, so a comparative analysis is provided. The District's financial statements are immediately following this section.

### **FINANCIAL HIGHLIGHTS**

The District's general fund financial situation decreased from the 2004 fiscal year to 2005. This was the first year the District has shown a loss in general fund equity over the past four years. With building renovations and improvements this spending of equity was deliberate and planned to complete projects that were not initially planned or budgeted for through the bond issue.

As anticipated, our athletic fund had greater expenses for 2005 than revenue, with this amount budgeted in the general fund to cover the shortfall of the athletic fund. This year the Boy's Basketball Team celebrated a perfect season with a 28 - 0 record, winning the State Championship title in March.

The cafeteria program has continued to show an improvement in the fund balance from the prior year. This is the first year the cafeteria has paid a portion of the utility and custodial expenses to the District's general fund.

For the 2004-2005 school year, our capital projects fund has funded the completion of building improvements and additions at the Olivet Middle School and High School. These expenditures totaled \$4.5 million in direct improvements to the District. The dedication ceremony of our auditorium was held in March of this year. Improvements will continue at our transportation facility in the Spring of 2006. These expenditures totaled \$6.4 million in direct improvements to the District.

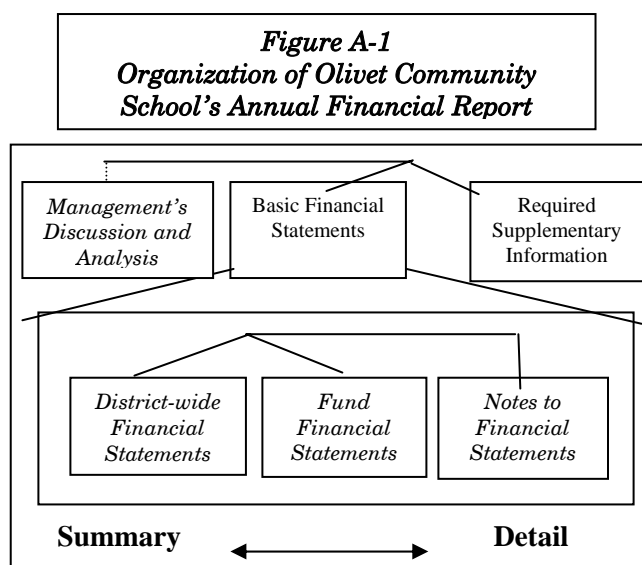
Total general fund revenues reached nearly \$9.9 million dollars with spending at nearly \$10.4 million dollars; total general fund revenues reflected a deficiency against expenditures and transfers by nearly \$450,000. With the current fund balance of 17.99% of expenditures and transfers, the District continues to have the necessary funds available to meet expenses without participating in short-term cash flow loans.

The District ended with a deficiency for the year in the general fund balance even with student membership increasing slightly by 3.41 students and with level state aid funding of \$6,700 per student.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide notes to statements.



- The governmental funds statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

<b>Figure A-2</b>			
<b>Major Features of District-Wide and Fund Financial Statements</b>			
	District-wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of fiduciary net assets * Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, Olivet's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarized the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

## **DISTRICT-WIDE STATEMENTS**

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statements of net assets include all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.

- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities:

- Governmental activities – Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state formula aid finance most of these activities.

## **FUND FINANCIAL STATEMENTS**

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its building and site fund) or to show that it is properly using certain revenues (like school lunch and athletics).

The District has two kinds of funds:

- Governmental funds – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information with the governmental funds statements that explain the relationship (or differences) between them.
- Fiduciary funds – The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.



## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets – The District’s combined net deficit was slightly more on June 30, 2005 than the year before, increasing by \$200,454 to \$792,225. The other impact is District depreciation which was \$553,613 compared to District total capital purchases in 2005 of \$4,662,668.

<b>Table A-3</b>		
<b>Olivet Community Schools</b>		
	2005	2004
Current assets	\$ 4,089,954	\$ 10,083,932
Capital assets	19,097,579	14,988,696
Total assets	23,187,533	25,072,628
Long-term debt outstanding	21,700,873	22,060,160
Other liabilities	2,278,885	3,604,239
Total liabilities	23,979,758	25,664,399
Net assets (deficit)		
Invested in capital assets, net of related debt	(2,251,010)	(2,453,003)
Restricted for debt service	105,138	71,495
Unrestricted	1,353,647	1,789,737
Total net assets (deficit)	\$ (792,225)	\$ (591,771)

<b>Table A-4</b>		
<b>Changes in Olivet Community School's Net Assets</b>		
	2005	2004
Revenues:		
Program revenues:		
Charges for services	\$ 373,005	\$ 339,587
Federal and state operating grants	977,806	898,849
General revenues:		
Property taxes	1,717,306	1,593,598
Investment	98,651	51,849
State aid - unrestricted	8,014,070	7,964,979
ISD - special education	466,632	552,209
Other	52,628	51,383
Total revenues	11,700,098	11,452,454
Expenses:		
Instruction	6,352,926	5,936,584
Support services	3,410,723	3,271,406
Community services	26,900	23,116
Food services	373,253	334,989
Athletics	316,876	278,412
Interest on long-term debt	866,261	878,242
Unallocated depreciation	553,613	485,821
Total expenses	11,900,552	11,208,570
Change in net assets	\$ (200,454)	\$ 243,884

## **District Governmental Activities**

The District's good financial shape has come about through a number of areas.

- Proposal A which established the student foundation grant concept, and has increased that amount from \$4,352 per student in 1995 to \$6,700 per student in 2005.
- Student count in the District has been steady. In fiscal year 2000 state aid membership was 1,308.88 and in five years has decreased minimally to 1,308.63. We anticipate a slight increase in student growth in the upcoming years.
- The District settled a three-year contract (language) with the teachers for the school years 2003-2006. Teacher's salaries and benefits were negotiated for a one-year contract and will be negotiated in the upcoming year for a one-year contract. A reasonable conservative approach has been taken in negotiations.
- Through the community support of our recent bond issue, we have significantly improved our educational facilities.
- Through budget cuts, the District has saved money by lowering non-instructional costs.

## **FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

The financial performance of the District as a whole is reflected in its governmental funds, with a combined fund balances of \$2.668 million compared to \$7.299 million in 2004. The general fund, fund balance decreased by \$447,901 for the year. The capital projects fund, fund balance decreased by \$4.231 million as the District is nearing the completion of the construction project.

Total fund balances decreased and the athletic fund had expenditures greater than revenues. The general fund contribution to the athletic fund brought this fund to its expected balance of matching revenues to expenditures. The food service fund balance increased by \$21,000 this year.

### **General Fund and Budget Highlights**

During the 2005 fiscal year the original District budget was amended several times to reflect changes which affected the District.

The initial amendment took place in late fall, following the student count and staff changes had been determined. Winter amendments took place to account for the unfavorable information coming from the state government regarding school financing. All programs and staff were maintained, only necessary expenditures were made to compensate for the decrease in funding from the state.

The final amended budget was with expenditures and transfers being \$505,021 higher than revenue. Final results showed that revenues came in slightly lower (\$6,737) than were anticipated, and expenses came in less (\$63,857). The net result was a negative change in fund balance of \$447,901, decreasing the fund balance to \$1,788,979.

General fund expenditures came within .64% of budget. Inventory controls allowed the District to reduce expenditures for summer cleaning and preparation for fall school opening. Operational expenses came in lower than anticipated for the month of June. Special Education reimbursement from the Intermediate School District came in higher than anticipated.

The difference between the final District amended budget and end of the year figures amount to about .55%. The change from the Board adopted budget of June 2004 amounted to revenues which were greater by 2.3% and expenditures which were within \$64,000 of the final budget.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

The District's capital assets are as follows:

<b>Table A-5</b>				
<b>Olivet Community School's Capital Assets</b>				
	<b>2005</b>			<b>2004</b>
	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Net book value</b>	<b>Net book value</b>
Land	\$ 116,900	\$	\$ 116,900	\$ 116,900
Construction in progress	1,950		1,950	4,121,258
Buildings and improvements	22,962,798	5,017,589	17,945,209	9,732,296
Technology	497,323	327,852	169,471	147,110
Furniture and fixtures	758,638	526,951	231,687	284,745
Machinery and equipment	758,228	480,985	277,243	200,250
Transportation equipment	785,850	430,731	355,119	386,137
<b>Total</b>	<b>\$ 25,881,687</b>	<b>\$ 6,784,108</b>	<b>\$ 19,097,579</b>	<b>\$ 14,988,696</b>

Capital asset purchases throughout fiscal 2005 include construction in progress, building improvements and buses. The total was approximately \$4.4 million. For more information see note 4.

### **LONG-TERM DEBT**

At year-end the District had \$22,440,424 long-term debt outstanding as shown in Table A-6. More detailed information is available in Note 6 to the financial statements.

The District paid down its debt by \$670,000 while there were increases during the year of \$351,805.

<b>Table A-6</b>		
<b>Olivet Community Schools</b>		
<b>Outstanding Long-Term Debt</b>		
	<b>2005</b>	<b>2004</b>
General obligation bonds	\$ 16,605,000	\$ 17,275,000
Durant - limited obligation bonds	87,431	87,431
School bond loan fund	5,172,868	4,827,013
Severance benefits	575,125	569,175
	<b>\$ 22,440,424</b>	<b>\$ 22,758,619</b>

## **FACTORS BEARING ON THE DISTRICT'S FUTURE**

At the time these financial statements were prepared and audited, the District was aware of four existing circumstances that could significantly affect its financial health in the future:

- While the 2005-2006 foundation allowance has been finalized by the State of Michigan, the foundation allowance represents 86 percent of total general fund revenue. The weak state economy could require pro-rations in state aid.
- Negotiations between the Board of Education are on-going, but at this point in time a new agreement has not yet been reached. Careful attention needs to be given to the rising costs of health insurance and retirement system costs.
- The District is plaintiff with other school districts in a lawsuit against the State, seeking to rectify inequities in the formula the State uses to apportion special education aid to the districts.
- Student count is projected to slightly increase over the next five years.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Office, Olivet Community Schools, 255 First Street, Olivet, Michigan 49076.

**OLIVET COMMUNITY SCHOOLS**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2005**

	<b>Governmental activities</b>
<b>ASSETS</b>	
<b>CURRENT ASSETS:</b>	
Cash and cash equivalents	\$ 1,142,841
Investments	1,087,430
Receivables:	
Other governmental units	1,795,272
Taxes	1,260
Other	21,252
Prepaid expenses	2,693
Inventories	39,206
<b>TOTAL CURRENT ASSETS</b>	<b>4,089,954</b>
<b>NONCURRENT ASSETS:</b>	
Capital assets	25,881,687
Less accumulated depreciation	(6,784,108)
<b>TOTAL NONCURRENT ASSETS</b>	<b>19,097,579</b>
<b>TOTAL ASSETS</b>	<b>\$ 23,187,533</b>
<b>LIABILITIES AND NET ASSETS (DEFICIT)</b>	
<b>CURRENT LIABILITIES:</b>	
Accounts payable	\$ 483,881
Accrued interest	118,167
Accrued salaries and related items	856,103
Deferred revenue	81,183
Current portion of long-term obligations	691,624
Current portion of severance benefits	47,927
<b>TOTAL CURRENT LIABILITIES</b>	<b>2,278,885</b>
<b>NONCURRENT LIABILITIES:</b>	
Noncurrent portion of long-term obligations	21,173,675
Noncurrent severance benefits	527,198
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>21,700,873</b>
<b>TOTAL LIABILITIES</b>	<b>23,979,758</b>
<b>NET ASSETS (DEFICIT):</b>	
Invested in capital assets, net of related debt	(2,251,010)
Restricted for debt service	105,138
Unrestricted	1,353,647
<b>TOTAL NET ASSETS (DEFICIT)</b>	<b>(792,225)</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 23,187,533</b>

See notes to financial statements.

**OLIVET COMMUNITY SCHOOLS  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2005**

Functions/programs	Expenses	Program revenues		Governmental activities
		Charges for services	Operating grants	Net (expense) revenue and changes in net assets
Governmental activities:				
Instruction	\$ 6,352,926	\$ 15,100	\$ 699,906	\$ (5,637,920)
Support services	3,410,723		102,564	(3,308,159)
Community services	26,900	35,369		8,469
Food services	373,253	218,476	175,336	20,559
Athletics	316,876	104,060		(212,816)
Interest on long-term debt	866,261			(866,261)
Unallocated depreciation	553,613			(553,613)
Total governmental activities	<u>\$ 11,900,552</u>	<u>\$ 373,005</u>	<u>\$ 977,806</u>	<u>(10,549,741)</u>
General revenues:				
Property taxes, levied for general purposes				499,709
Property taxes, levied for debt service				1,217,597
Investment earnings				98,651
State sources				8,014,070
ISD special education allocation				466,632
Other				52,628
Total general revenues				<u>10,349,287</u>
<b>CHANGE IN NET ASSETS (DEFICIT)</b>				(200,454)
<b>NET ASSETS (DEFICIT), beginning of year</b>				<u>(591,771)</u>
<b>NET ASSETS (DEFICIT), end of year</b>				<u>\$ (792,225)</u>

See notes to financial statements.

OLIVET COMMUNITY SCHOOLS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2005

	General fund	Capital projects fund	Other nonmajor governmental funds	Total governmental funds
ASSETS				
ASSETS:				
Cash	\$ 193,676	\$ 702,231	\$ 246,934	\$ 1,142,841
Investments	956,342		131,088	1,087,430
Receivables:				
Other governmental units	1,792,974		2,298	1,795,272
Due from other funds	35,918	200,000		235,918
Due from fiduciary funds			12,301	12,301
Taxes receivable	1,260			1,260
Other	8,532		419	8,951
Prepaid expenses	2,693			2,693
Inventories	33,671		5,535	39,206
TOTAL ASSETS	\$ 3,025,066	\$ 902,231	\$ 398,575	\$ 4,325,872

LIABILITIES AND FUND BALANCES

LIABILITIES:				
Accounts payable	\$ 98,360	\$ 385,521	\$	\$ 483,881
Accrued salaries and related items	853,816		2,287	856,103
Deferred revenue	78,679		3,765	82,444
Due to other funds	205,232		30,686	235,918
TOTAL LIABILITIES	1,236,087	385,521	36,738	1,658,346

	General fund	Capital projects fund	Other nonmajor governmental funds	Total governmental funds
FUND BALANCES:				
Reserved for inventory	\$ 33,671	\$	\$ 5,535	\$ 39,206
Reserved for debt service			223,305	223,305
Reserved for capital projects		516,710		516,710
Designated for severance benefits	575,125			575,125
Designated for subsequent year's expenditures	213,693			213,693
Undesignated	966,490		132,997	1,099,487
TOTAL FUND BALANCES	1,788,979	516,710	361,837	2,667,526
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,025,066	\$ 902,231	\$ 398,575	\$ 4,325,872
Total governmental fund balance				\$ 2,667,526

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds:

The cost of the capital assets is	\$ 25,881,687
Accumulated depreciation is	(6,784,108)

Long-term liabilities are not due and payable in the current period and are not reported in the funds:

Bonds payable	(21,865,299)
Severance benefits	(575,125)
Accrued interest on long-term debt is not included as a liability in government funds, it is recorded when paid	(118,167)
Deferred revenue expected to be collected after September 1, 2005:	
Property taxes at June 30, 2005	1,260
Net assets (deficit) of governmental activities	\$ (792,226)

**OLIVET COMMUNITY SCHOOLS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2005**

	General fund	Capital projects fund	Other nonmajor governmental funds	Total governmental funds
<b>REVENUES:</b>				
Local sources:				
Property taxes	\$ 499,828	\$ 78,098	\$ 1,217,597	\$ 1,717,425
Investment income	19,415	1,850	1,138	98,651
Other	95,795		327,988	425,633
Total local sources	615,038	79,948	1,546,723	2,241,709
State sources	8,528,149		14,358	8,542,507
Federal sources	288,391		160,978	449,369
Incoming transfers and other transactions	466,632			466,632
Total revenues	9,898,210	79,948	1,722,059	11,700,217
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Basic programs	5,155,204			5,155,204
Added needs	1,164,402			1,164,402
Adult and continuing education	27,372			27,372
Total instruction	6,346,978			6,346,978
Support services:				
Pupil	230,829			230,829
Instructional staff	267,962			267,962
General administration	308,756			308,756
School administration	690,367			690,367
Business	154,851			154,851
Operations and maintenance	989,271			989,271
Transportation	663,937			663,937
Central	236,403			236,403
Other	23,163			23,163
Total support services	3,565,539			3,565,539
<b>EXPENDITURES (Concluded):</b>				
Current (Concluded):				
Community services	\$ 26,900	\$	\$	\$ 26,900
Food service			373,253	373,253
Athletics			316,876	316,876
Capital outlay		4,510,983		4,510,983
Debt service:				
Principal repayment			670,000	670,000
Interest and other fiscal charges			723,356	723,356
Total expenditures	9,939,417	4,510,983	2,083,485	16,533,885
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(41,207)	(4,431,035)	(361,426)	(4,833,668)
<b>OTHER FINANCING SOURCES (USES):</b>				
Sale of school assets	3,304			3,304
Proceeds from school bond loan fund			198,600	198,600
Operating transfers in		200,000	209,998	409,998
Operating transfers out	(409,998)			(409,998)
Total other financing sources (uses)	(406,694)	200,000	408,598	201,904
<b>NET CHANGE IN FUND BALANCES</b>	(447,901)	(4,231,035)	47,172	(4,631,764)
<b>FUND BALANCES:</b>				
Beginning of year	2,236,880	4,747,745	314,665	7,299,290
End of year	\$ 1,788,979	\$ 516,710	\$ 361,837	\$ 2,667,526

See notes to financial statements.



**OLIVET COMMUNITY SCHOOLS  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2005**

**Net change in fund balances total governmental funds** \$ (4,631,764)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(553,613)
Capital outlay	4,662,668
Proceeds from capital assets sold	(3,304)
Gain on sale of capital assets	3,133

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable, beginning of the year	122,517
Accrued interest payable, end of the year	(118,167)

Proceeds of long-term debt are other financing sources and principal payments are expenditures in the governmental funds, but not in the statement of activities (where they are additions and reductions of liabilities)

Principal repayment	670,000
Proceeds from school bond loan fund	(198,600)
Long-term interest on school bond loan fund (accrued)	(147,255)

Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:

Deferred revenue, beginning of the year	(1,379)
Deferred revenue, end of the year	1,260

Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Accrued severance benefits, beginning of the year	569,175
Accrued severance benefits, end of the year	(575,125)

<b>Change in net assets of governmental activities</b>	<b>\$ (200,454)</b>
--------------------------------------------------------	---------------------

**OLIVET COMMUNITY SCHOOLS  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2005**

	<b>Private purpose trust fund</b>	<b>Agency fund</b>
<b>ASSETS</b>		
Cash	\$ 49,431	\$ 101,792
Due from other funds		5,775
<b>TOTAL ASSETS</b>	<b>\$ 49,431</b>	<b>\$ 107,567</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES:</b>		
Accounts payable	\$	\$ 2,036
Due to student groups		93,230
Due to other funds		12,301
Total liabilities		107,567
<b>NET ASSETS:</b>		
Reserved for trust activities	49,431	
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 49,431</b>	<b>\$ 107,567</b>

**OLIVET COMMUNITY SCHOOLS**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FIDUCIARY FUND**  
**YEAR ENDED JUNE 30, 2005**

	<b>Private purpose trust fund</b>
<b>ADDITIONS:</b>	
Interest earnings	\$ 767
Donations	14,595
	<hr/> 15,362
<b>DEDUCTIONS:</b>	
Other	5,439
	<hr/>
<b>CHANGE IN NET ASSETS</b>	9,923
<b>NET ASSETS:</b>	
Beginning of year	39,508
	<hr/>
End of year	<u><u>\$ 49,431</u></u>

## **OLIVET COMMUNITY SCHOOLS NOTES TO FINANCIAL STATEMENTS**

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the Olivet Community Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units, except as described below. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below. Capital outlay expenditures in the general fund are understated by \$93,000, as a result of recording the current year's bus purchases transaction in the previous year.

#### **A. Reporting Entity**

The Olivet Community Schools (the "District") is governed by the Olivet Community Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined by Governmental Accounting Standards Board Nos. 14 and 39.

#### **B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

**OLIVET COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Government-wide and fund financial statements (Continued)**

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, investment income and other revenue) The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Governmental Funds** – Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental fund:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The *capital projects fund* accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

The capital projects fund includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with the applicable provisions of §1351a of the Revised School Code.

The following is a summary of the revenue and expenditures for the capital projects bond activity since inception:

Revenue and other financing sources	<u>\$ 12,670,217</u>
Expenditures	<u>\$ 12,153,507</u>

**OLIVET COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Government-wide and fund financial statements (Concluded)**

**Other Non-major Funds**

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service and athletic activities in the special revenue funds.

The *debt service funds* account for the servicing of general long-term debt.

**Fiduciary funds** account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *private purpose trust fund* is accounted for using the accrual method of accounting. Private purpose trust funds account for assets where both the principal and interest may be spent. These funds are not reported in the District's government-wide financial statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

**C. Measurement Focus, Basis of Accounting and Basis of Presentation**

**Accrual Method**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**Modified Accrual Method**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

**OLIVET COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)**

**Modified Accrual Method (Concluded)**

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

**State Revenue**

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2005, the foundation allowance was based on pupil membership counts taken in February and September of 2004.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2004 to August 2005. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue.

**D. Other Accounting Policies**

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and GASB Statement No. 40 *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

**OLIVET COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Other Accounting Policies (Continued)**

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

**2. Property Taxes**

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2005, the District levied the following amounts per \$1,000 of assessed valuation:

<u>Fund</u>	<u>Mills</u>
General fund - non-homestead	18.0000
Debt service fund - 2003	4.7000
Debt service fund - 2002	4.3500

**3. Inventories and Prepaid Expenditures**

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.



**OLIVET COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Other Accounting Policies (Continued)**

4. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All receivables, including property taxes receivable, are shown net of an allowance for uncollectibles.

5. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	30 - 50 years
Furniture and other equipment	5 – 20 years

The District's capitalization policy is to capitalize individual amounts exceeding \$5,000.

6. Compensated Absences

The District's contracts generally provide for granting vacation and sick leave with pay. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirements.

**OLIVET COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)**

**D. Other Accounting Policies (Concluded)**

7. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight line method over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.

**OLIVET COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Concluded)**

3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
4. The Superintendent of Business is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2005. The District does not consider these amendments to be significant.

**NOTE 3 - DEPOSITS AND INVESTMENTS**

As of June 30, 2005, the District had the following investments:

<b>Investment Type</b>	<b>Fair value</b>	<b>Weighted average maturity (years)</b>	<b>Standard &amp; Poor's Rating</b>	<b>%</b>
MILAF - MICMS	\$ 694	0.0027	AAAm	0.06%
MILAF - MIMAX	1,086,736	0.0027	AAAm	99.94%
Total fair value	<u>\$ 1,087,430</u>			<u>100.00%</u>
Portfolio weighted average maturity		<u>0.0027</u>		
One day maturity equals 0.0027, one year equals 1.00				

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2005, the fair value of the District's investments is the same as the value of the pool shares.

**OLIVET COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)**

**Interest rate risk.** In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

**Credit risk.** State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2005, the District did not have investments in commercial paper and corporate bonds.

**Concentration of credit risk.** The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**Custodial credit risk – deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2005, \$1,225,687 of the District's bank balance of \$1,425,687 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name. The above amounts include interest bearing deposits.

Fiduciary fund balances are not included in the above balances. As of June 30, 2005, \$50,685 of the Fiduciary fund's bank balance of \$151,223 was exposed to custodial credit risk because is was uninsured and uncollateralized

**Custodial credit risk - investments.** For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

**Foreign currency risk.** The District is not authorized to invest in investments which have this type of risk.

**OLIVET COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - DEPOSITS AND INVESTMENTS (Concluded)**

The above amounts as previously reported in Note 3:

Deposits	\$ 1,294,064
Investments	<u>1,087,430</u>
	<u><u>\$ 2,381,494</u></u>

The above amounts are reported in the financial statements as follows:

Cash Fiduciary Funds	\$ 151,223
Cash - District wide	1,142,841
Investments - District wide	<u>1,087,430</u>
	<u><u>\$ 2,381,494</u></u>

**OLIVET COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 - CAPITAL ASSETS**

A summary of changes in the District's capital assets at June 30, 2005 is as follows:

	Balance July 1, 2004	Additions	Reclassification/ Deletions	Balance June 30, 2005
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 116,900	\$	\$	\$ 116,900
Construction in progress	4,121,258	4,510,985	8,630,293	1,950
Total capital assets not being depreciated	4,238,158	4,510,985	8,630,293	118,850
Capital assets, being depreciated:				
Buildings and improvements	14,390,363	8,572,761	326	22,962,798
Furniture and fixtures	660,303	106,179	7,844	758,638
Machinery and equipment	727,472	32,326	1,570	758,228
Technology	479,097	28,842	10,616	497,323
Transportation equipment	862,311	41,868	118,329	785,850
Total capital assets, being depreciated	17,119,546	8,781,976	138,685	25,762,837
Accumulated depreciation:				
Buildings and improvements	4,658,067	359,848	326	5,017,589
Furniture and fixtures	513,193	21,602	7,844	526,951
Machinery and equipment	442,727	39,656	1,398	480,985
Technology	278,847	59,621	10,616	327,852
Transportation equipment	476,174	72,886	118,329	430,731
Total accumulated depreciation	6,369,008	553,613	138,513	6,784,108
Net capital assets being depreciated	10,750,538	8,228,363	172	18,978,729
Net governmental capital assets	<u>\$ 14,988,696</u>	<u>\$ 12,739,348</u>	<u>\$ 8,630,465</u>	<u>\$ 19,097,579</u>

Depreciation for the fiscal year ended June 30, 2005 amounted to \$553,613. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**OLIVET COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 - RECEIVABLES**

Receivables at June 30, 2005 consist of the following:

Other	\$ 8,951
Fiduciary fund	<u>12,301</u>
	<u><u>\$ 21,252</u></u>

**NOTE 6 - LONG-TERM DEBT**

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

	General obligation and serial bonds	School bond loan fund	Severance benefits	Limited obligation Durant bonds	Total
Balance, July 1, 2004	\$ 17,275,000	\$ 4,827,013	\$ 569,175	\$ 87,431	\$ 22,758,619
Additions		345,855	5,950		351,805
Deletions	<u>670,000</u>				<u>670,000</u>
Balance, June 30, 2005	16,605,000	5,172,868	575,125	87,431	22,440,424
Less current portion	<u>685,000</u>		47,927	6,624	<u>739,551</u>
Total due after one year	<u><u>\$ 15,920,000</u></u>	<u><u>\$ 5,172,868</u></u>	<u><u>\$ 527,198</u></u>	<u><u>\$ 80,807</u></u>	<u><u>\$ 21,700,873</u></u>

**OLIVET COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - LONG-TERM DEBT (Continued)**

Long-term obligation debt at June 30, 2005 is comprised of the following:

2002 general obligation bonds due in annual installments of \$255,000 to \$715,000 through May 1, 2028 with interest from 2.150% to 5.125%	\$ 11,275,000
2003 refunding serial bonds due in annual installments of \$295,000 to \$430,000 through May 1, 2020 with interest from 2.00% to 4.10%	<u>5,330,000</u>
	16,605,000
Limited obligation (Durant) bonds due in annual installments of \$6,624 to \$31,654 through May 2013 with an interest rate of 4.76%. Certain state aid payments have been pledged as security.	<u>87,431</u>
Total bonded debt	16,692,431
Borrowings from the State of Michigan under the School Bond Loan Fund Program, including interest	5,172,868
Obligation under contract for severance benefits	<u>575,125</u>
Total general long-term debt	<u><u>\$ 22,440,424</u></u>

Interest expense (all funds) for the year ended June 30, 2005 was \$722,410.

The Durant bonds, including interest, was issued in anticipation of payment to the District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond.

In prior years, the District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2005, \$5,270,000 of bonds outstanding are considered defeased.



**OLIVET COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - LONG-TERM DEBT (Concluded)**

The annual requirements to amortize long-term debt outstanding as of June 30, 2005, including interest of \$9,274,710 are as follows:

Year ending June 30,	Principal	Interest	Total
2006	\$ 691,624	\$ 709,746	\$ 1,401,370
2007	726,654	701,656	1,428,310
2008	712,270	673,264	1,385,534
2009	717,616	652,444	1,370,060
2010	722,979	628,361	1,351,340
2011 - 2015	3,786,288	2,738,071	6,524,359
2016 - 2020	4,080,000	1,922,794	6,002,794
2021 - 2025	3,125,000	1,029,280	4,154,280
2026 - 2028	2,130,000	219,094	2,349,094
Total	16,692,431	9,274,710	25,967,141
Accumulated severance benefits	575,125		575,125
School bond loan fund	5,172,868		5,172,868
	<u>\$ 22,440,424</u>	<u>\$ 9,274,710</u>	<u>\$ 31,715,134</u>

**NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES**

Interfund payable and receivable balances at June 30, 2005 are as follows:

Receivable Fund		Payable Fund	
General	\$ 35,918	General	\$ 205,232
Capital projects	200,000	Special revenue	30,686
	<u>\$ 235,918</u>		<u>\$ 235,918</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

**OLIVET COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 8 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN**

Plan Description - The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the board of the MPERS. The MPERS provides retirement benefits and postretirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30026, Lansing, Michigan 48909 or by calling (517) 322-6000.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2005 was 12.99% through September 2004 and 14.87% for October 1, 2004 through June 30, 2005. The contribution requirements of plan members and the District are established and may be amended by the MPERS Board of Trustees. The District contributions to MPERS for the year ended June 30, 2005, 2004 and 2003 were approximately \$906,000, \$775,000 and \$773,000, respectively, and were equal to the required contribution for those years.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other Post-employment Benefits - Under the MPERS Act, all retirees have the option of continuing health, dental and vision coverage.

**OLIVET COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 9 - RISK MANAGEMENT**

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in a distinct pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The District continues to carry commercial insurance for other risks of loss, including property and casualty errors and omissions, fleet and employee health and accident insurance.

**NOTE 10 - TRANSFERS**

The general fund transferred \$209,998 to the athletic fund and \$200,000 to the capital projects fund during the current fiscal year to subsidize operations of the athletic fund and supplement the capital projects fund.

**NOTE 11 - COMMITMENTS**

The District continues to complete its capital projects program. Management estimates they have another \$516,000 of expenditures to complete the various projects.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**OLIVET COMMUNITY SCHOOLS  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
YEAR ENDED JUNE 30, 2005**

	<b>Original budget</b>	<b>Final budget</b>	<b>Actual</b>	<b>Variance with final budget positive (negative)</b>
<b>REVENUES:</b>				
Local	\$ 538,956	\$ 608,530	\$ 615,038	\$ 6,508
State sources	8,467,517	8,530,406	8,528,149	(2,257)
Federal sources	279,733	290,431	288,391	(2,040)
Incoming transfers and other transactions	400,000	475,580	466,632	(8,948)
Total revenues	9,686,206	9,904,947	9,898,210	(6,737)
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Basic programs	5,073,916	5,178,294	5,155,204	23,090
Added needs	1,139,793	1,170,465	1,164,402	6,063
Adult and continuing education	44,089	27,616	27,372	244
Total instruction	6,257,798	6,376,375	6,346,978	29,397
Support services:				
Pupil	249,116	232,309	230,829	1,480
Instructional staff	251,716	271,702	267,962	3,740
General administration	342,260	313,082	308,756	4,326
School administration	670,811	694,708	690,367	4,341
Business	146,281	147,526	154,851	(7,325)
Operations and maintenance	879,213	1,005,423	989,271	16,152
Transportation	661,565	669,533	663,937	5,596
Central	236,703	242,461	236,403	6,058
Other	70,000	23,163	23,163	
Total support services	3,507,665	3,599,907	3,565,539	34,368
Community services	29,581	26,990	26,900	90
Total expenditures	9,795,044	10,003,272	9,939,417	63,855
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(108,838)</b>	<b>(98,325)</b>	<b>(41,207)</b>	<b>57,118</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Sale of school assets	250	3,304	3,304	
Operating transfers out	(200,000)	(410,000)	(409,998)	2
Total other financing sources (uses)	(199,750)	(406,696)	(406,694)	2
<b>NET CHANGE IN FUND BALANCE</b>	<b>\$ (308,588)</b>	<b>\$ (505,021)</b>	<b>(447,901)</b>	<b>\$ 57,120</b>
<b>FUND BALANCE:</b>				
Beginning of year			2,236,880	
End of year			<u>\$ 1,788,979</u>	

## **ADDITIONAL INFORMATION**

**OLIVET COMMUNITY SCHOOLS  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUND TYPES  
JUNE 30, 2005**

	<u>Special revenue</u>	<u>Debt service</u>	<u>Total nonmajor governmental funds</u>
<b>ASSETS</b>			
<b>ASSETS:</b>			
Cash and equivalents	\$ 23,682	\$ 223,252	\$ 246,934
Investments	131,088		131,088
Accounts receivable	366	53	419
Due from other governmental units	2,298		2,298
Due from other funds	12,301		12,301
Inventory - food service	5,535		5,535
	<u>5,535</u>	<u>          </u>	<u>5,535</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 175,270</u></u>	<u><u>\$ 223,305</u></u>	<u><u>\$ 398,575</u></u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES:</b>			
Accrued salaries and related items	\$ 2,287	\$	\$ 2,287
Deferred revenue	3,765		3,765
Due to other funds	30,686		30,686
	<u>30,686</u>	<u>          </u>	<u>30,686</u>
<b>TOTAL LIABILITIES</b>	<u>36,738</u>	<u>          </u>	<u>36,738</u>
<b>FUND BALANCES:</b>			
Reserved for inventory	5,535		5,535
Reserved for debt service		223,305	223,305
Undesignated	132,997		132,997
	<u>132,997</u>	<u>          </u>	<u>132,997</u>
<b>TOTAL FUND BALANCES</b>	<u>138,532</u>	<u>223,305</u>	<u>361,837</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><u>\$ 175,270</u></u>	<u><u>\$ 223,305</u></u>	<u><u>\$ 398,575</u></u>

**OLIVET COMMUNITY SCHOOLS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUND TYPES**  
**YEAR ENDED JUNE 30, 2005**

	<u>Special revenue</u>	<u>Debt service</u>	<u>Total nonmajor governmental funds</u>
<b>REVENUES:</b>			
Local sources:			
Property taxes	\$	\$ 1,217,597	\$ 1,217,597
Investment income	138	1,000	1,138
Other	322,536	5,452	327,988
Total local sources	322,674	1,224,049	1,546,723
State sources	14,358		14,358
Federal sources	160,978		160,978
Total revenues	498,010	1,224,049	1,722,059
<b>EXPENDITURES:</b>			
Current :			
Athletics	316,876		316,876
School lunch	373,253		373,253
Debt service:			
Principal repayment		670,000	670,000
Interest and other fiscal charges		723,356	723,356
Total expenditures	690,129	1,393,356	2,083,485
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	(192,119)	(169,307)	(361,426)
<b>OTHER FINANCING SOURCES:</b>			
Proceeds from school bond loan fund		198,600	198,600
Operating transfers in	209,998		209,998
Total other financing sources	209,998	198,600	408,598
<b>NET CHANGE IN FUND BALANCES</b>	17,879	29,293	47,172
<b>FUND BALANCES:</b>			
Beginning of year	120,653	194,012	314,665
End of year	\$ 138,532	\$ 223,305	\$ 361,837



**OLIVET COMMUNITY SCHOOLS  
SPECIAL REVENUE FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2005  
with comparative totals for June 30, 2004**

	<b>School lunch fund</b>	<b>Athletics fund</b>	<b>Totals</b>	
			<b>2005</b>	<b>2004</b>
<b>ASSETS</b>				
Cash and equivalents	\$ 13,738	\$ 9,944	\$ 23,682	\$ 48,895
Investments	131,088		131,088	
Accounts receivable	366		366	523
Due from other funds	12,301		12,301	40,939
Due from other governmental units	2,298		2,298	1,994
Inventory - food service	5,535		5,535	7,741
<b>TOTAL ASSETS</b>	<b>\$ 165,326</b>	<b>\$ 9,944</b>	<b>\$ 175,270</b>	<b>\$ 100,092</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Accrued salaries and related items	\$ 1,653	\$ 634	\$ 2,287	\$ 3,602
Deferred revenue	3,765		3,765	2,187
Due to other funds	22,992	7,694	30,686	
<b>Total liabilities</b>	<b>28,410</b>	<b>8,328</b>	<b>36,738</b>	<b>5,789</b>
<b>FUND BALANCES:</b>				
Reserved for inventory	5,535		5,535	7,741
Undesignated	131,381	1,616	132,997	86,562
<b>Total fund balances</b>	<b>136,916</b>	<b>1,616</b>	<b>138,532</b>	<b>94,303</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 165,326</b>	<b>\$ 9,944</b>	<b>\$ 175,270</b>	<b>\$ 100,092</b>

**OLIVET COMMUNITY SCHOOLS  
SPECIAL REVENUE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2005  
with comparative totals for the year ended June 30, 2004**

	<b>School lunch fund</b>	<b>Athletics Fund</b>	<b>Totals</b>	
			<b>2005</b>	<b>2004</b>
<b>REVENUES:</b>				
Food sales	\$ 218,476	\$	\$ 218,476	\$ 187,834
Federal sources	160,978		160,978	127,042
State sources	14,358		14,358	19,495
Interest and miscellaneous	146	(8)	138	420
Athletic events		104,060	104,060	61,336
Total revenues	393,958	104,052	498,010	396,127
<b>EXPENDITURES:</b>				
Salaries and wages	132,134	161,431	293,565	272,863
Employee benefits	45,481	43,103	88,584	73,306
Supplies and other expenses	30,795		30,795	37,844
Food costs	164,843		164,843	132,399
Athletic expenses		112,342	112,342	75,325
Total expenditures	373,253	316,876	690,129	591,737
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	20,705	(212,824)	(192,119)	(195,610)
<b>OTHER FINANCING SOURCES:</b>				
Operating transfer in from general fund		209,998	209,998	218,318
<b>NET CHANGES IN FUND BALANCES</b>	20,705	(2,826)	17,879	22,708
<b>FUND BALANCES, beginning of year</b>	116,211	4,442	120,653	71,595
<b>FUND BALANCES, end of year</b>	<u>\$ 136,916</u>	<u>\$ 1,616</u>	<u>\$ 138,532</u>	<u>\$ 94,303</u>

**OLIVET COMMUNITY SCHOOLS  
DEBT SERVICE FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2005  
with comparative totals for June 30, 2004**

	<b>2002 debt</b>	<b>2003 debt</b>	<b>Totals</b>	
			<b>2005</b>	<b>2004</b>
<b>ASSETS</b>				
Cash	\$ 87,853	\$ 135,399	\$ 223,252	\$ 194,203
Accounts receivable	53		53	
Due from other funds				39
<b>TOTAL ASSETS</b>	<b>\$ 87,906</b>	<b>\$ 135,399</b>	<b>\$ 223,305</b>	<b>\$ 194,242</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$	\$	\$	\$ 230
Fund balances:				
Reserved for debt service	87,906	135,399	223,305	194,012
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 87,906</b>	<b>\$ 135,399</b>	<b>\$ 223,305</b>	<b>\$ 194,242</b>

**OLIVET COMMUNITY SCHOOLS  
DEBT SERVICE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2005  
with comparative totals for the year ended June 30, 2004**

	<b>2002 debt</b>	<b>2003 debt</b>	<b>Totals</b>	
			<b>2005</b>	<b>2004</b>
<b>REVENUES:</b>				
Local sources:				
Current taxes	\$ 584,797	\$ 632,800	\$ 1,217,597	\$ 1,137,730
Interest on investments	788	212	1,000	1,592
Other		5,452	5,452	
	<u>585,585</u>	<u>638,464</u>	<u>1,224,049</u>	<u>1,139,322</u>
Total revenues				
<b>EXPENDITURES:</b>				
Principal repayment	225,000	445,000	670,000	655,000
Interest and other fiscal charges	544,441	178,915	723,356	754,735
	<u>769,441</u>	<u>623,915</u>	<u>1,393,356</u>	<u>1,409,735</u>
Total expenditures				
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(183,856)</u>	<u>14,549</u>	<u>(169,307)</u>	<u>(270,413)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from school bond loan fund	198,600		198,600	216,397
	<u>198,600</u>		<u>198,600</u>	<u>216,397</u>
Total other financing sources (uses)				
<b>NET CHANGES IN FUND BALANCES</b>	14,744	14,549	29,293	(54,016)
<b>FUND BALANCES:</b>				
Beginning of year	73,162	120,850	194,012	248,028
	<u>73,162</u>	<u>120,850</u>	<u>194,012</u>	<u>248,028</u>
End of year	<u>\$ 87,906</u>	<u>\$ 135,399</u>	<u>\$ 223,305</u>	<u>\$ 194,012</u>

**OLIVET COMMUNITY SCHOOL DISTRICT  
FIDUCIARY FUNDS  
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS  
AND LIABILITIES BY ACTIVITY - AGENCY FUND  
YEAR ENDED JUNE 30, 2005**

	<u>Balance 6/30/2004</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance 6/30/2005</u>
High School:				
Business	\$ 455	\$	\$	\$ 455
1993	1			1
1997	(48)			(48)
1998	372			372
2000	1,114			1,114
2002	375			375
2003	1,533			1,533
2004	2,095		(2,184)	(89)
2005	2,880	1,379	(2,557)	1,702
2006	1,533	9,418	(7,825)	3,126
2007	1,344	2,484	(431)	3,397
2008		2,820	(2,316)	504
FFA	548	11,560	(11,927)	181
Academic awards	1,900	1,650	(1,900)	1,650
Art club	(16)	60		44
Choir patron	1,008	10,174	(7,561)	3,621
Choir trip	2,275	27,873	(30,020)	128
Drama	353	4,451	(3,173)	1,631
In house	1,612	12,028	(11,896)	1,744
Interest	53	625		678
Library			(582)	(582)
Newspaper	18			18
Student government	1,817	11,154	(9,745)	3,226
Volleyball	367	535	(214)	688
Arts festival	1,477	10	(1,243)	244
National Honor Society	2,267	37,119	(37,682)	1,704
Plan PSA tests	150	401	(416)	135
Quiz bowl	4			4
Unknown	5			5
Year book previous	(1,468)			(1,468)
Year book 2002-03	(1,260)			(1,260)
Year book 2003-04	4,313	586	(4,262)	637
Year book 2004-05		11,924	(4,977)	6,947
Physical Ed	414			414

**OLIVET COMMUNITY SCHOOL DISTRICT  
FIDUCIARY FUNDS  
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS  
AND LIABILITIES BY ACTIVITY - AGENCY FUND  
YEAR ENDED JUNE 30, 2005**

	<u>Balance 6/30/2004</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balance 6/30/2005</u>
High School (Concluded):				
Cheerleading	\$ 444	\$	\$	\$ 444
SADD	239			239
Boys basketball	(222)	1,519	(1,832)	(535)
Senior send off	31	6,677	(5,012)	1,696
Soccer	200	758		958
Band boosters	1,000			1,000
Choir formal wear				
Softball	644			644
	<hr/>	<hr/>	<hr/>	<hr/>
Total high school	29,827	155,205	(147,755)	37,277
	<hr/>	<hr/>	<hr/>	<hr/>
Middle School:				
4th Grade trip	687	27,193	(25,692)	2,188
4th Grade Chavez	(486)	483		(3)
4th Gehrig	442		(372)	70
4th Wilbourn	982		(314)	668
4th Toburen	484		(387)	97
5th Vistemaker	806	25	(184)	647
5th Wheeler	549	10	(235)	324
5th Worden	1,040	50	(337)	753
6th Grade account	4,854	11,015	(13,160)	2,709
6th Ethiopian	(22)	22		
7th Grade account	1,159	885	(1,033)	1,011
8th Grade account	138		(37)	101
8th Grade CHICAGO	611	21,721	(21,422)	910
"Adults Who Care"	334			334
Band account	166		(47)	119
Baseball account bicker	178	1,842	(1,697)	323
Grasp	648	828	(1,019)	457
Awards banquet	60			60
Peer mediation	101		(101)	
Book fair	4,492	8,652	(11,451)	1,693
Choir	10			10
Coffee	547	6,194	(4,080)	2,661
Fundraiser	5,470	29,869	(30,932)	4,407
Interest	2,076	400	(170)	2,306
Office	5,616	2,923	(5,569)	2,970

**OLIVET COMMUNITY SCHOOL DISTRICT  
FIDUCIARY FUNDS  
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS  
AND LIABILITIES BY ACTIVITY - AGENCY FUND  
YEAR ENDED JUNE 30, 2005**

	<b>Balance 6/30/2004</b>	<b>Receipts</b>	<b>Disbursements</b>	<b>Balance 6/30/2005</b>
Middle School (Concluded):				
Parent advisory	\$ 223	\$	\$ (223)	\$
Spoelstra	135			135
Staff scholar	105			105
Student Council	3,131	4,556	(6,776)	911
Summer school	3,280		(108)	3,172
Marchett Environmental	6	555		561
Math/Science Sly	24	207	(198)	33
Scholastic	330			330
St Jude's Math-A-Thon	60			60
Sweatshirt taylor	108	404	(404)	108
Ms. Daly physical education	698	500	(368)	830
5th Grade camp	1,702	10,979	(10,180)	2,501
4-5 Teachers popfund		931	(712)	219
Ski club	(30)	2,989	(3,227)	(268)
Kolar SPED room fund	(174)	390		216
Cookbook account	2,394	10	(2,404)	
Movie Night SPED Ed	11			11
SAP Club	903	91	(91)	903
Art club	642	248	(177)	713
	<hr/>	<hr/>	<hr/>	<hr/>
Total middle school	44,490	133,972	(143,107)	35,355
	<hr/>	<hr/>	<hr/>	<hr/>
Elementary School:				
KDG Wine	241	522	(326)	437
KDG Sheldon	702	408	(124)	986
KDG Elsie	220	554	(752)	22
KDG Hubbard	433	505	(362)	576
1st Porter	417	410		827
1st London	625	196		821
1st Johnson	(6)			(6)
1/2 Shrontz - Tatrow	441	369	(276)	534
1/2 Wixson	652	316	(583)	385
2nd Krauss	308	177	(358)	127
2nd Fisk	1,178	380	(363)	1,195
3rd Amey	86	194	(179)	101
3rd Crawford	(4)	74	(161)	(91)
3rd Johnson	487	68	(405)	150
3rd Wank	1,033	75		1,108
3rd Walker	433	168	(481)	120

**OLIVET COMMUNITY SCHOOL DISTRICT  
FIDUCIARY FUNDS  
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS  
AND LIABILITIES BY ACTIVITY - AGENCY FUND  
YEAR ENDED JUNE 30, 2005**

	<b>Balance 6/30/2004</b>	<b>Receipts</b>	<b>Disbursements</b>	<b>Balance 6/30/2005</b>
Elementary School (Concluded):				
Book Fair	\$ 646	\$ 10,420	\$ (10,205)	\$ 861
Spartan Labels	2,107	1,298	(3,307)	98
Fund raiser	(49)	28,419	(28,343)	27
Interest	110	18		128
Office	318	2,220	(1,811)	727
Pop fund	1,471	2,706	(3,337)	840
Lori Post Fund	936	1,419	(1,457)	898
Palacco		3,500		3,500
Science Bucienski	161		(77)	84
Sum + Fun	1,903	540	(678)	1,765
Special education		193	(179)	14
Unknown	78			78
Johncock Music	14			14
Project fund	2,694	4,025	(2,447)	4,272
	<hr/>	<hr/>	<hr/>	<hr/>
Total elementary school	17,635	59,174	(56,211)	20,598
	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 91,952	\$ 348,351	\$ (347,073)	\$ 93,230
	<hr/>	<hr/>	<hr/>	<hr/>



**OLIVET COMMUNITY SCHOOL DISTRICT  
BONDED DEBT  
JUNE 30, 2005**

Bond issue dated November 19, 2002 for erecting, furnishing and equipping an addition or additions to the Fern Persons Elementary School and Middle School/High School including an auditorium, classrooms and office space; partially remodeling, furnishing and refurbishing, equipping and re-equipping and acquiring, installing and equipping technology for the Fern Persons Elementary School and Middle School/High School buildings; improving athletic facilities; partially remodeling, furnishing and re-furnishing, equipping and re-equipping the existing gymnasium and cafeteria; developing and improving the site; and to pay the costs of issuing the bonds.

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	May 1,	November 1,	June 30,	Amount
\$ 255,000	\$ 268,622	\$ 268,622	2006	\$ 792,244
285,000	263,522	263,522	2007	812,044
305,000	259,104	259,104	2008	823,208
320,000	253,767	253,767	2009	827,534
340,000	247,367	247,367	2010	834,734
360,000	240,567	240,567	2011	841,134
380,000	233,367	233,367	2012	846,734
400,000	225,672	225,672	2013	851,344
420,000	217,172	217,172	2014	854,344
440,000	207,827	207,827	2015	855,654
460,000	197,817	197,817	2016	855,634
480,000	187,122	187,122	2017	854,244
500,000	175,722	175,722	2018	851,444
525,000	161,972	161,972	2019	848,944
550,000	147,534	147,534	2020	845,068
575,000	133,441	133,441	2021	841,882
600,000	118,706	118,706	2022	837,412
625,000	103,331	103,331	2023	831,662
650,000	87,706	87,706	2024	825,412
675,000	71,456	71,456	2025	817,912
700,000	54,581	54,581	2026	809,162
715,000	36,644	36,644	2027	788,288
715,000	18,322	18,322	2028	751,644
<u>\$ 11,275,000</u>	<u>\$ 3,911,341</u>	<u>\$ 3,911,341</u>		<u>\$ 19,097,682</u>

The above bonds have interest rates from 2.15% to 5.125%.

**OLIVET COMMUNITY SCHOOL DISTRICT  
BONDED DEBT  
JUNE 30, 2005**

Bond issue dated March 26, 2003 for the purpose of refunding the School District's outstanding 1993 refunding bonds which are due and payable in the years 2005 through 2020.

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	May 1,	November 1,	June 30,	Amount
\$ 430,000	\$ 84,758	\$ 84,758	2006	\$ 599,516
410,000	80,458	80,458	2007	570,916
400,000	76,358	76,358	2008	552,716
390,000	71,458	71,458	2009	532,916
375,000	65,998	65,998	2010	506,996
365,000	60,373	60,373	2011	485,746
355,000	54,533	54,533	2012	464,066
340,000	48,675	48,675	2013	437,350
355,000	42,895	42,895	2014	440,790
345,000	36,683	36,683	2015	418,366
330,000	30,473	30,473	2016	390,946
325,000	24,368	24,368	2017	373,736
310,000	18,193	18,193	2018	346,386
305,000	12,148	12,148	2019	329,296
295,000	6,048	6,048	2020	307,096
<u>\$ 5,330,000</u>	<u>\$ 713,419</u>	<u>\$ 713,419</u>		<u>\$ 6,756,838</u>

The above bonds have interest rates from 2.00% to 4.10%.

**OLIVET COMMUNITY SCHOOL DISTRICT  
BONDED DEBT  
JUNE 30, 2005**

\$229,022 Durant Bond issued November 24, 1998:

Principal due May 1	Interest due May 15	Debt service requirement for fiscal year	
		June 30,	Amount
\$ 6,624	\$ 2,986	2006	\$ 9,610
31,654	13,696	2007	45,350
7,270	2,340	2008	9,610
7,616	1,994	2009	9,610
7,979	1,631	2010	9,610
8,359	1,252	2011	9,611
8,756	854	2012	9,610
9,173	437	2013	9,610
<u>\$ 87,431</u>	<u>\$ 25,190</u>		<u>\$ 112,621</u>

The above bond issue bears interest at 4.76%. The bond proceeds were used for erecting, furnishing and equipping additions to the existing high school building and developing and improving the site.

This bond, including the interest hereon, is issued in anticipation of payments appropriated and to be appropriated by the State under Section 11g(3) of Act 94 to the School District (the "State Aid Payments"). The School District hereby pledges and assigns to the Authority all of its rights to and in such State Aid Payments as security for this bond and the State Aid Payments which are hereby pledged shall be subject to a statutory lien in favor of the Authority as authorized by Act 94. This bond is a self-liquidating bond and is not a general obligation of the School District and does not constitute an indebtedness of the School District within any constitutional or statutory limitation, and is payable both as to principal and interest, solely from such State Aid Payments. The School District, as requested by the Authority, hereby irrevocably authorizes the payment of the State Aid Payments directly to the Authority's Depository.

**OLIVET COMMUNITY SCHOOL DISTRICT**  
**BONDED DEBT**  
**JUNE 30, 2005**

Amounts needed for the payment of bond principal and interest in excess of receipts from property taxes are borrowed from the Michigan School Bond Loan Program. These loans, together with accrued interest payable thereon, are to be repaid when the debt retirement millage rate provides funds in excess of the amounts needed to pay current bond maturities and interest. The borrowings from the State under this program have been summarized as follows:

<u>Year ended June 30,</u>	<u>Loan proceeds</u>	<u>Interest payments</u>	<u>Interest expense</u>	<u>Loan balance</u>
1996	\$ 2,019,158	\$	\$ 233,407	\$ 2,252,565
1997	287,804		131,316	2,671,685
1998	244,237		151,526	3,067,448
1999	275,007		163,703	3,506,158
2000	134,109		183,707	3,823,974
2001	111,537		191,936	4,127,447
2002	55,165	(125,000)	175,225	4,232,837
2003	102,170		144,788	4,479,795
2004	216,397		130,821	4,827,013
2005	<u>198,600</u>	<u></u>	<u>147,255</u>	<u>5,172,868</u>
Totals June 30, 2005	<u>\$ 3,644,184</u>	<u>\$ (125,000)</u>	<u>\$ 1,653,684</u>	<u>\$ 5,172,868</u>



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Jeffrey C. Stevens  
Linda I. Schirmer  
Steven W. Scott  
David M. Raack  
Robert E. Miller, Jr.  
Steven B. Robbins  
James E. Nyquist  
James R. Dedyne

Timothy H. Adams  
David B. Caldwell  
Edward L. Williams, III  
Timothy J. Orians  
Dennis D. Theis

Walter P. Maner, Jr. (1921-2004)  
Floyd L. Costerisan  
Leon A. Ellis (1933-1988)

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Education  
Olivet Community Schools  
Olivet, Michigan

September 2, 2005

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Olivet Community Schools as of and for the year ended June 30, 2005, which collectively comprise Olivet Community School's basic financial statements and have issued our report thereon dated September 2, 2005. The report on the general fund was qualified because capital outlay expenditures were understated by \$93,000 due to recording the purchase of school buses in the previous year. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Olivet Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Olivet Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Board of Education  
Olivet Community Schools  
Olivet, Michigan

September 2, 2005

We noted certain matters that we reported to management of Olivet Community Schools in a separate letter dated September 2, 2005.

This report is intended solely for the information and use of the board of education, management, U.S. Department of Education and Michigan Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

*Mamay, Costenaro & Ellis, P.C.*

Certified Public Accountants



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September 2, 2005

To the Board of Education  
Olivet Community Schools  
Olivet, Michigan

In planning and performing our audit of the financial statements of Olivet Community Schools for the year ended June 30, 2005, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The comments and suggestions regarding those matters follow. This letter does not affect our report dated September 2, 2005, on the financial statements of Olivet Community Schools.

Prior Year Comments

Prior year comments have been addressed.

### Current Year Comments

#### New Grace Period for Cafeteria Plans

The IRS announced in Notice 2005-42 that they would allow employers to change the Flexible Spending Accounts (FSAs) in their Cafeteria Plans (Section 125 Plans) to adopt a brief grace period following the end of the plan year. This would give employees an additional 2½ months (14½ months in total) to use up their deferrals for the plan year. The employer would provide a run-out period for 2½ months following the plan year in which the employee could incur additional qualified expenses. Prior to this notice any unused amounts would be forfeited at the end of the plan year.

You must amend your plan by the end of the current plan year to provide this grace period for current and future plan years. Please contact us if you need any additional information.

#### New Rules For §403(B) Plans

Proposed regulations were issued last year that require a written plan document for §403(b) plans. The plan must contain all the material terms and conditions for eligibility, benefits, contribution limitations, the annuity contracts or accounts available or used under the plan for funding, and the time and form under which benefit payments will be made. There is no requirement that a single document must be used. This rule applies for tax years beginning after 2005.

We would recommend that you contact your attorney before the end of 2005 to assure you comply.



Bonds

For all bonds issued after May 1, 1994, a separate interim audit must be completed for each individual series of a bond authorization prior to the issuance of the next series. This interim audit must be completed within 120 days after completion of all projects and filed immediately with the Department of Treasury. This requirement is pursuant to Section 1351a(2) of Act 451 of the Public Acts of 1976. The management of the District should contact us with information as to the completion of all capital projects meeting this requirement so we can perform our audit procedures in a timely manner.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of Olivet Community Schools, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours

*Mary Costinson, E. Ellis, P.C.*



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September 2, 2005

To the Finance Committee  
Olivet Community Schools  
Olivet, Michigan

We have audited the financial statements of Olivet Community Schools for the year ended June 30, 2005, and have issued our report thereon dated September 2, 2005. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibility under the U.S. Generally Accepted Auditing Standards and Government Audit Standards

As stated in our engagement, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Olivet Community Schools. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Olivet Community Schools' compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Olivet Community Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2005, except for the changes in the District's investment policy. We noted no transactions entered into by the School District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

3. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Estimates have been used in calculating the liability for employee severance benefits. The estimated liability is approximately \$575,125. In addition, certain amounts included in capital assets have been based on an outside appraisal company.

4. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Olivet Community Schools financial reporting process (that is, cause future financial statements to be materially misstated). During the audit, adjustments were made to record transactions in the debt service and capital projects funds that which were new funds in the current year. In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by Olivet Community Schools, either individually or in the aggregate, indicate matters that could have a significant effect on Olivet Community Schools financial reporting process. All adjustments have been approved by management.

5. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

6. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Olivet Community Schools financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Olivet Community Schools auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

8. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

This information is intended solely for the use of the Finance Committee, Board of Directors, and management of Olivet Community Schools and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Mama, Costenaro & Ellis, P.C.*